

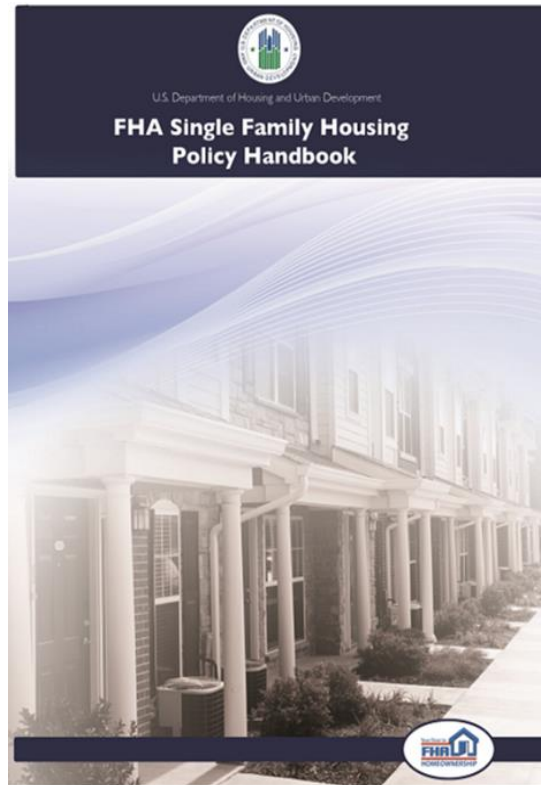


## Disclaimer regarding the Effective date of Handbook 4000.1

- On April 30, 2015, FHA announced that it extended the effective date for the policies contained in the *Single Family Housing Policy Handbook* (SF Handbook; HUD Handbook 4000.1) from June 15, 2015 to September 14, 2015.
- This training session was recorded prior to April 30, 2015. Please note the change of the effective date of SF Handbook during the presentation.



# Training: Origination Through Post-Closing/ Endorsement





# Origination/Processing Module 1

*Single Family Housing Policy Handbook  
Title II Insured Housing Program Forward Mortgages  
Origination through Post-Closing/Endorsement 4000.1*

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# **FHA Single Family Housing Policy Handbook**

## **TABLE OF CONTENTS**

### **II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT**

#### **A. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES**

1. Origination/Processing
  - a. Applications and Disclosures
  - b. General Mortgage Insurance Eligibility



# Introduction

- The Origination/Processing section of the SF Handbook provides the application documentation and processing standards for Single Family (1-to 4- units) mortgages to be insured under the National Housing Act.



# Mortgagee Responsibility

The Mortgagee must:

- Use the **most recent version** of all required forms to conduct FHA Single Family loan originations;
- Obtain a **complete** Fannie Mae Form 1003/Freddie Mac Form 65, **Uniform Residential Loan Application (URLA)** from the borrower; and
- **Provide all federal and state disclosures** to the borrower in order to begin the origination process.



# Maximum Age of Documents

## General Document Age:

- Documents used in origination and underwriting a mortgage may not be more than **120 days old at the Disbursement Date.**



# Counting of Days

For purposes of counting Days for periods provided in the *SF Handbook*:

- Day one is the Day after the effective or issue date of the document, whichever is later.





## Definition: Disbursement Date

- The **Disbursement Date** refers to the date the proceeds of the mortgage are made available to the borrower.



# Appraisal Validity

## Initial Appraisal Validity:

- The initial appraisal is valid for 120 days on all mortgages—**including new construction**—from the effective date of the appraisal.
- This date is defined by the appraiser on the appraisal report.



## QUESTION - Appraisal Effective Date

What is the Effective Date of the appraisal report?

- a) The date the Appraiser signs the appraisal report.
- b) The date the Appraiser inspected the property.



## ANSWER - Appraisal Effective Date

What is the Effective Date of the appraisal report?

b) The date the Appraiser inspected the property.



# Initial Appraisal Validity 30-Day Extension

The 120-day Validity period of an appraisal may be extended for 30 days at the option of the Mortgagee if:

1. The Mortgagee Loan Approval or HUD-issued Firm Commitment is issued prior to the expiration of the original appraisal; **or**
2. The Borrower signed a valid sales contract prior to the expiration date of the appraisal.



# Appraisal Update

- Appraisal update must be performed before the initial appraisal has expired.
- An appraisal cannot be updated if an appraisal extension has been issued.
- The valid period for an updated appraisal is 240 days after the Effective Date of the initial appraisal report.



# Appraisal Integrity

## Reminder:

- The Appraisal report **must** list FHA as an **Intended User** of the Appraisal.



# Handling of Documents

- Mortgagees may not accept or use any third party verifications that have been handled by, or **transmitted from or through any Interested Party**, or the borrower.
- This policy **includes asset documentation**.





# Handling of Documents

- Mortgagees must not accept or use documents relating to the employment, income, assets, or credit of borrowers that have been handled by, or transmitted from or through the equipment of **unknown parties** or **Interested Parties**.
- How do we identify an **unknown party**?



# Mortgage Application

- Uniform Residential Loan Application (URLA) and HUD/VA Addendum to the URLA
- The Mortgagee must obtain **the borrower's initial completed *signed* URLA** (Fannie Mae Form 1003/Freddie Mac Form 65) and Page 2 of form HUD-92900-A ***before underwriting*** the mortgage application.



## Answer - Mortgage Application: Borrower Self-Completed

- The Mortgagee must have a licensed party identified on the URLA and is held accountable for the mortgage loan origination. **This includes borrower self-completed mortgage applications.**



# Mortgage Loan Application

## Non-Borrowing Spouse Community Property State:

- The debt of a Non-Borrowing Spouse **must also be included on the URLA** if the borrower resides in or the property to be purchased is located in a community property state.



## **Non-Borrowing Spouse Community Property State: Consent and Authorization**

The Mortgagee must obtain a non-borrowing spouse's consent and authorization where necessary to:

- Verify specific information required to process the mortgage application, including the consent to verify their SSN with the Social Security Administration (SSA).



# Mortgage Loan Application

Mortgage loan applications must be executed in the legal names of all parties, including the:

- Borrower(s); and
- Loan Originator.



# Mortgage Loan Application

- Governmental entities and FHA-approved nonprofit corporations may be solely in the corporation's name.
- All other mortgage applications must be executed in the name of one or more individuals. This includes trusts.
- For a nonprofit borrower, the Mortgagee must obtain a copy of the FHA approval letter from the nonprofit. The Mortgagee must verify that the nonprofit is an eligible FHA borrower.



# Mortgage Loan Application

## Government-Issued Photo ID:

- The Mortgagee must include a statement that they have verified the borrower's identity using a valid government-issued photo identification prior to endorsement of the mortgage; **or**
- The Mortgagee may choose to include a copy of such photo identification in the case binder.





## Case Numbers

- FHA mortgage loan applications do not become a FHA application of record, until an FHA Case Number is assigned.
- Always remember, the FHA Case Number is **assigned to the property**, not to the borrower.



# Reinstatement of Case Numbers

Automatically cancelled case numbers will only be reinstated if:

- The mortgage closed prior to the cancellation of the case number.
- Examples of acceptable documentation include:
  - Settlement Statement; and
  - Similar legal documentation.



# Transferring Case Numbers

- The original Mortgagee must assign the case number to the new Mortgagee **immediately** upon the borrower's request.
- The original Mortgagee **may** provide processing documents but, **is not required to do so**.



## Transferring Existing Appraisals

- The Mortgagee, at the borrower's request, **must transfer** the appraisal to the second Mortgagee **within 5 business days**.
- The original Mortgagee **may not** charge the borrower a fee for the transfer of any documents.
- A fee **may** be negotiated between the original Mortgagee and the new Mortgagee. However, a fee for the transfer of documents for Streamline Refinance transactions is not permitted.



# Transferring Existing Appraisal-New Borrower

- When an existing appraisal is being used for a different borrower, the Mortgagee must:
  - Enter the new borrower's information in FHAC;
  - Collect the **appraisal fee from the new borrower and refund the fee to the original borrower**; and
  - Have the appraiser review the purchase contract and revise the appraisal report for value adjustments accordingly.



# Borrower Eligibility

In order to obtain FHA-insured financing, all Borrowers must meet the eligibility criteria in this section of the handbook.

1. Origination/Processing
  - a. Application and Disclosures
  - b. General Mortgage Insurance Eligibility
    - ii. Borrower Eligibility



## Co-Borrower or Cosigner with Financial Interest

- A party who has a financial interest in the mortgage transaction, such as the seller, builder or real estate agent, **may not be a co-Borrower or a cosigner.**
- **Exceptions** may be granted when the party with the financial interest is a **Family Member.**



# Valid Social Security Number

- The mortgage must document and validate for each borrower a their valid Social Security Number.

## Exception:

- State and local government agencies, instrumentalities of government and HUD-approved Nonprofit organizations are not required to provide an SSN.





# Borrower Age Requirements

- The Borrower must be old enough to enter into a mortgage note that can be legally enforced in the state, or other jurisdiction, where the property is located (“State Law”).
- There is no maximum age limit for a Borrower.



## Borrower Minimum Decision Credit Score

- Minimum Decision Credit Score (MDCS) refers to the credit score reported on the Borrower's credit report when all reported scores are the same.
- Where **three** differing scores are reported, the middle score is the MDCS.
- Where **two** differing scores are reported, the MDCS is the lowest score.
- Where only **one** score is reported, that score is the MDCS.



## Multiple Borrowers Minimum Decision Credit Score

- Where the mortgage involves multiple Borrowers, the Mortgagee must determine the MDCS for each Borrower, and then select the lowest MDCS for all Borrowers.
- Where the mortgage involves multiple Borrowers and one or more of the Borrowers do not have a credit score (non-traditional or insufficient credit), the Mortgagee must select the lowest MDCS of the Borrower(s) with credit score(s).
- Where the mortgage involves multiple Borrowers and **none of the Borrowers report a credit score**, the Borrowers may **still be eligible for FHA-insured financing** (non-traditional or insufficient credit).



# Eligibility Requirement Minimum Decision Credit Score

- The Borrower is **not eligible** for FHA-insured financing if the **MDCS is less than 500.**



# Co-Borrower vs. Cosigner Requirements

Co-Borrower	Cosigner
Liable for the debt	Liable for the debt
Obligated on the Note or credit instrument	Obligated on the Note or credit instrument
Must have an ownership interest in the property	Does not have an ownership interest in the property
Executes the security instruments	Does not execute the the security instruments

- In community property states, the Borrower's spouse is not required to be a Borrower or Cosigner.



# Non-occupying co-borrowers or cosigners

**Non-occupying co-borrowers or cosigners** must either be:

- United States (U.S.) citizens; **or**
- Have a Principal Residence in the U.S.



# Military Personnel Eligibility

Borrowers who are military personnel, who cannot physically reside in a property because they are on **Active Duty** are still **considered owner occupants** and are eligible for maximum financing if:

- A **Family Member** of the Borrower will occupy the **subject property as their Principal Residence**; or
- The Borrower **intends** to **occupy the subject property upon discharge from military service**.



## **Military Personnel Eligibility (cont.)**

The Mortgagee must:

- Obtain a copy of the Borrower's military orders evidencing the Borrower's Active Duty status;
- Document that the Borrower's duty station is more than 100 miles from the subject property; and
- Obtain the Borrower's intent to occupy the subject property upon discharge from military service, if a Family Member will not occupy the subject Property as their Principal Residence.





# Citizenship and Immigration Status

- U.S citizenship is not required.



## U.S. Residency Status

- The Mortgagee must determine the U.S. residency status of the Borrower based on information provided on the mortgage application and other application documentation.
- In no case is a Social Security card sufficient to prove immigration or work status.



# Lawful Permanent Resident Aliens

## Standard:

- A Borrower with lawful permanent resident alien status may be eligible for FHA-insured financing provided the Borrower satisfies the same requirements, terms and conditions as those for U.S. citizens.

## Required Documentation:

- The mortgage file must include evidence of the permanent residency and indicate that the Borrower is a lawful permanent resident alien on the *URLA*.
- The U.S. Citizenship and Immigration Services (USCIS) within the Department of Homeland Security provides evidence of lawful, permanent residency status.



# Non-Permanent Resident Aliens

A Borrower who is a non-permanent resident alien may be eligible for FHA-insured financing provided:

- The property will be the **Borrower's Principal Residence**;
- The Borrower has a **valid SSN**, except for those employed by the World Bank, a foreign embassy, or equivalent employer identified by HUD;
- The Borrower is **eligible to work in the United States**, as evidenced by the Employment Authorization Document (EAD) issued by the USCIS; and
- The Borrower satisfies the **same requirements**, terms and conditions as those for **U.S. citizens**.



## **Non-Permanent Resident Aliens: EAD**

- The EAD is required to substantiate work status.
- If the EAD will expire within one year and a prior history of residency status renewals exists, the Mortgagee may assume that continuation will be granted.
- If there are no prior renewals, the Mortgagee must determine the likelihood of renewal based on information from the USCIS.



## **Non-Permanent Resident Aliens: Refugee or Asylee**

- A Borrower residing in the U.S. by virtue of refugee or asylee status granted by the USCIS is automatically eligible to work in this country.
- The EAD is not required, but documentation substantiating the refugee or asylee status must be obtained.



## **Non-U.S. Citizens without Lawful Residency**

- Non-U.S. citizens without lawful residency in the U.S. are not eligible for FHA-insured mortgages.



# **Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt**

- Mortgagees are prohibited from processing an application for an FHA-insured mortgage for Borrowers with delinquent federal non-tax debt, including deficiencies and other debt associated with past FHA-insured mortgages.





## Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt (cont.)

- Mortgagees are required to determine whether the Borrowers have **delinquent federal non-tax debt**.
- Mortgagees may obtain information on delinquent Federal Debts from public records, credit reports or equivalent, and must check all Borrowers against the **Credit Alert Verification Reporting System (CAIVRS)**.



# **Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt: CAIVRS**

- If the debt was identified through CAIVRS, the Mortgagee must contact the creditor agency using the contact phone number and debt reference number reflected in the Borrower's CAIVRS report.
- If the creditor agency confirms that the debt is valid and in delinquent status as defined by the Debt Collection Improvement Act, then the Borrower is ineligible for an FHA-insured mortgage until the Borrower resolves the debt with the creditor agency.
- The Mortgagee may not deny a mortgage solely on the basis of CAIVRS information that has not been verified by the Mortgagee.
- If resolved either by determining that the information in CAIVRS is no longer valid or by resolving the delinquent status as stated above, the Mortgagee may continue to process the mortgage application.



## **Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt: CAIVRS (cont.)**

- In order for a Borrower with verified delinquent Federal Debt to become eligible, the Borrower must resolve their federal non-tax debt in accordance with the Debt Collection Improvement Act. The creditor agency that is owed the debt can verify that the debt has been resolved in accordance with the Debt Collection Improvement Act.
- The Mortgagee must include documentation from the creditor agency to support the verification and resolution of the debt.
- For debt reported through CAIVRS, the Mortgagee may obtain evidence of resolution by obtaining a clear CAIVRS report.



# Borrowers Delinquent on FHA-Insured Mortgages

- If a Borrower is currently delinquent on an FHA-insured mortgage, they are ineligible for a new FHA-insured mortgage unless the delinquency is resolved.



# Delinquent Federal Tax Debt

- Borrowers with delinquent Federal Tax Debt are ineligible.
- Tax liens may remain unpaid if the Borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt and the Borrower has made timely payments for at least three months of scheduled payments.
- The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.



## Delinquent Federal Tax Debt (cont.)

- The Mortgagee must include the payment amount in the agreement in the calculation of the Borrower's Debt-to-Income (DTI) ratio.



# Delinquent Federal Non-Tax Debt vs. Delinquent Federal Tax Debt

## **Federal Non-Tax Debt**

CAIVRS (or other means)



Debt Collection Improvement Act



Borrower must resolve their federal non-tax debt in accordance with the Debt Collection Improvement Act.



Clear CAIVRS Report

## **Federal Tax Debt**

- Does not report on CAIVRS
- Delinquency must be resolved (paid satisfied or payment arrangement)



# Credit Alert Verification Reporting System (CAIVRS)

- Mortgagees must check all borrowers against the Credit Alert Verification Reporting System (CAIVRS).
- This includes borrowers impacted by federally declared disasters.





## Valid First Liens

- The Mortgagee must ensure that the mortgaged property will be free and clear of all liens, except the insured mortgage and any secondary liens permitted by FHA regulations at 24 CFR §§ 203.32 and 203.41.



## Consent of Non-Borrowing Spouse

- To perfect a **valid first lien under state law**, the Mortgagee must require a **non-borrowing spouse** to execute either the security instrument or documentation indicating that they are relinquishing all rights to the property.



## Tax Liens

- Tax liens may remain unpaid if the Borrower has entered into a valid repayment agreement.
- The Mortgagee must document that the Borrower has made timely payments for at least three months of scheduled payments.
- The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.
- The lien holder must subordinate the tax lien to the FHA-insured mortgage.



# Nonprofit Organizations

- HUD-approved Nonprofit must be listed on the HUD Nonprofit Agency Roster and intend to sell or lease the property to low or moderate income families.



## Nonprofit Organizations (cont.)

HUD-approved Nonprofit organizations:

- Are eligible for the same percentage of financing that is available to an owner-occupant on their Principal Residence.
- May only obtain FHA-insured fixed rate mortgages.
- Are not eligible for cash-out refinances.



# State and Local Government Agencies and Instrumentalities of Government

State and Local Government Agencies and instrumentalities of government may obtain FHA-insured financing provided:

- The agency has the legal authority to become the Borrower;
- The particular state or local government is not in bankruptcy; and
- There is no legal prohibition on obtaining a deficiency Judgment based solely on its status as a state and local government.



## **State and Local Government Agencies and Instrumentalities of Government (cont.)**

State and Local Government Agencies and instrumentalities of government:

- Are eligible for the same percentage of financing that is available to an owner-occupant on their Principal Residence.
- May only obtain FHA-insured fixed rate mortgages.
- Are not eligible for cash-out refinances.



## Living Trusts

The Mortgagee may originate a mortgage for a living trust for a property held by the living trust, provided:

- The beneficiary of the living trust is a cosigner;
- The beneficiary will occupy the property as their Principal Residence; and
- The trust provides reasonable means to assure that the Mortgagee will be notified of any changes to the trust, including transfer of beneficial interest and any changes in occupancy status of the property.

The mortgage must obtain a copy of the trust documentation.





# Living Trusts and Security Instruments

- The name of the living trust must appear on the security instrument, such as the mortgage, deed of trust, or security deed.
- The name of the individual Borrower must appear on the security instrument when required to create a valid lien under state law. The names of the owner-occupant and other Borrowers, if any, must also appear on the Note with the trust.
- The name of the individual Borrower **is not required to appear on the property deed or title.**



# Excluded Parties

A mortgage is not eligible for FHA insurance if anyone participating in the mortgage transaction is listed on HUD's LDP list or in SAM as being excluded from participation in HUD transactions. This may include but is not limited to:

- Borrower
- Seller (except where selling the Principal Residence)
- Listing and selling real estate agent
- Loan originator
- Loan processor
- Underwriter
- Appraiser
- 203(k) Consultant



## Excluded Parties

- The Mortgagee must verify and certify that the participants involved in the transactions are not identified as Excluded Parties on form HUD-92900-LT , FHA Loan Underwriting and Transmittal Summary.
- The Mortgagee must check the “Yes” box on form HUD-92900-LT if the Borrower **appears on either the LDP or SAM list.**



## Exceptions: Number of FHA Mortgages per Borrower - Relocation

- A borrower may be eligible to obtain another FHA-insured mortgage without being required to sell an existing property covered by an FHA-insured mortgage if the borrower is:
  - Relocating or has relocated for an employment-related reason; and
  - Establishing or has established a new Principal Residence in an area more than 100 miles from the borrower's current Principal Residence.
- If the borrower moves back to the original area, the borrower is not required to live in the original house and may obtain a new FHA-insured mortgage on a new Principal Residence, provided the relocation meets the two requirements above.



## Definition: Secondary Residence

- A dwelling that a borrower occupies, in addition to their Principal Residence, but less than the majority of the calendar year.
- A Secondary Residence does not include a Vacation Home.



## Secondary Residence

Secondary Residences are only permitted with written approval from the Jurisdictional HOC after a determination that:

- The borrower has no other Secondary Residence;
- The Secondary Residence will not be a Vacation Home or otherwise be used primarily for recreational purposes;
- The commuting distance to the borrower's workplace creates an undue hardship on the borrower;
- There is no affordable rental housing meeting the borrower's needs within 100 miles of the borrower's workplace; and
- The maximum mortgage amount is 85 percent of the lesser of the appraised value or sales price.



# Restrictions on Property Flipping

**For case numbers assigned on or after January 1, 2015:**

- If a property is resold within 90 days or fewer following the date of acquisition by the seller, the property is not eligible for an FHA-insured mortgage.



# Restrictions on Property Flipping

- **Seller's Date of Acquisition:**
  - FHA defines the **seller's date of acquisition** as the date of settlement on the seller's purchase of that property.
- **Resale Date:**
  - FHA defines the **resale date** as the date of execution of the sales contract by all parties intending to finance the property with an FHA-insured mortgage.





# Condominium Project Policy-Status

- As stated in the Origination/Underwriting Section:
  - A **Condominium Project** must be FHA approved before a mortgage on an individual condominium unit can be insured.
- Currently, FHA's Condominium Project Approval requirements are in the formal rulemaking phase. This process must be completed before the guidance is published.
- Our existing Condominium Project Approval requirements, located in Mortgagee Letter 2012-18, and the Condominium Project Approval and Processing Guide attached to Mortgagee Letter 2011-22 continue to be applicable.





# Communications with Third Parties: Appraisal

## *Just a Reminder:*

- Mortgagees **may not discuss the contents of the appraisal** with anyone other than the borrower.
- Yes, this includes **Real Estate Agents**.



## Summary

During this module we covered policy clarifications contained within the Origination/Processing section of the SF Handbook 4000.1, including:

- Application Requirements;
- URLA and 92900-A borrower signature prior to underwriting;
- Appraisal Validity;
- Borrower Eligibility;
- Case number assignments; and
- Mile radius factors to provide clarification on Relocation and Secondary Residence considerations.



# **BREAK**

**We will begin Module 2 – Allowable Mortgage Parameters in a few moments.**